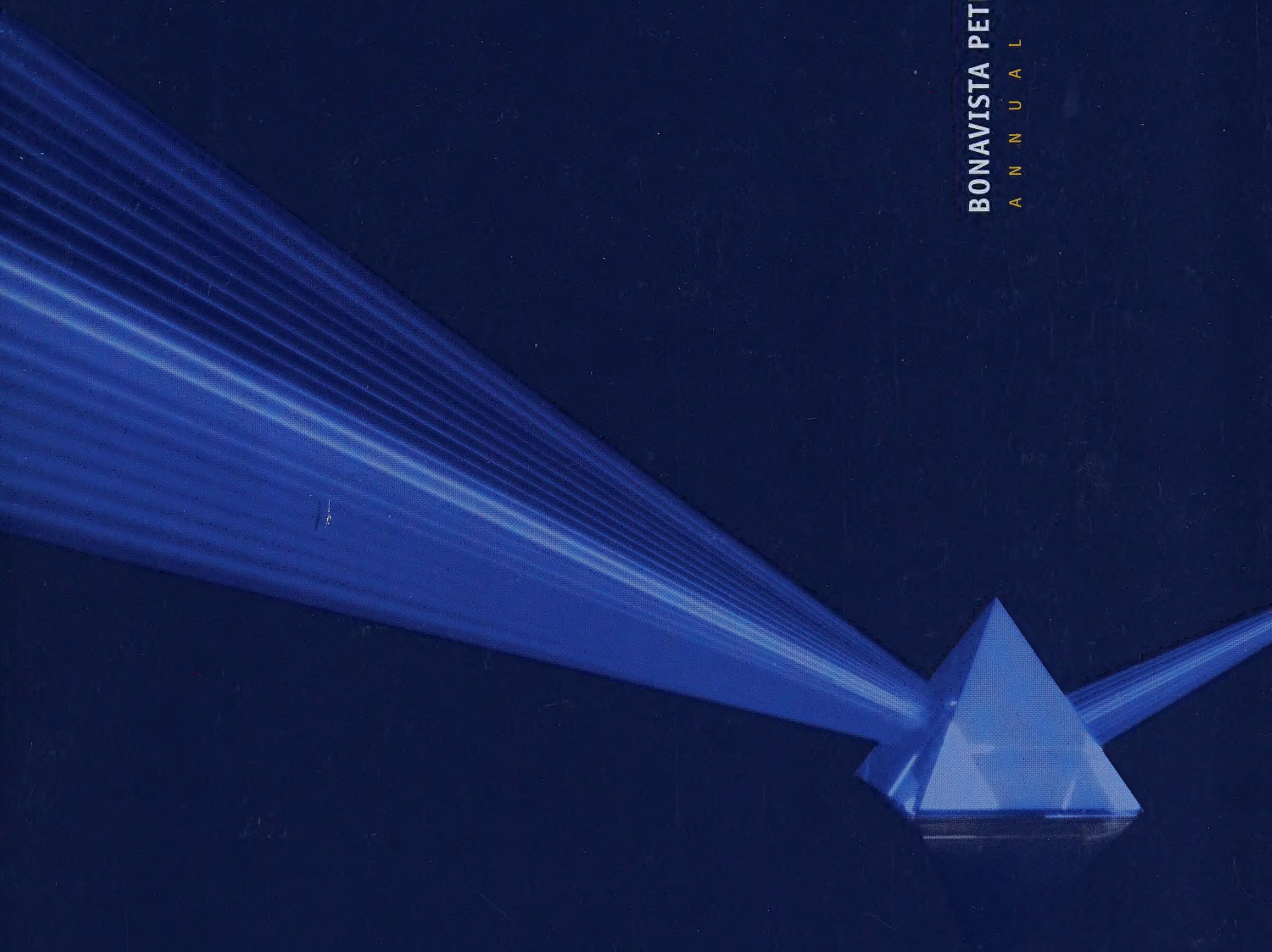
99

BONAVISTA PETROLEUM LTD.

ANNUAL REPORT



OUR STRENGTH IS OUR PEOPLE, OUR FOCUS IS PROFITABLE GROWTH

CORPORATE PROFILE

Bonavista Petroleum Ltd. is a Calgary, Alberta-based emerging intermediate oil and natural gas exploration, development and production company actively expanding its production and reserve base in Western Canada. In November 1997, Bonavista appointed a new management team with a mandate to improve performance, expand the Company's asset base and strengthen its financial position. Bonavista's corporate objective is to demonstrate sustainable per share growth in production, reserves, cash flow, earnings and asset value for its shareholders. Bonavista is listed on The Toronto Stock Exchange under the symbol "BNP".

TABLE OF CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

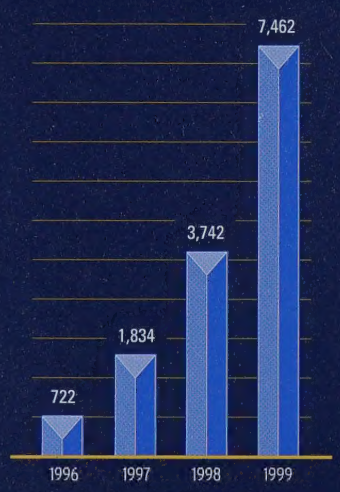
The Annual General Meeting of the Shareholders of Bonavista Petroleum Ltd. will be held at 3:00 PM on Thursday, June 1, 2000, in the Devonian Room of the Calgary Petroleum Club, located at 319 - 5th Avenue SW, Calgary, Alberta. Shareholders who are unable to attend this meeting are requested to complete and return their proxies to the CIBC Mellon Trust Company at their earliest convenience.

CORPORATE HIGHLIGHTS

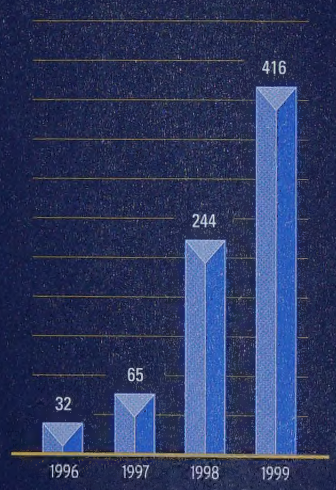
DECEMBER 31,	1999	1998	% Change
FINANCIAL			
(000's, except per share amounts)			
Production revenue	**$ 72,135**	$ 26,857	169%
Cash flow from operations	**46,067**	15,442	198%
Per share – basic	**1.83**	0.72	154%
Per share – fully diluted	**1.62**	0.61	166%
Net income	**17,098**	4,616	271%
Per share – basic	**0.68**	0.22	209%
Per share – fully diluted	**0.62**	0.20	210%
Working capital deficiency	**10,776**	2,143	403%
Total assets	**187,744**	97,700	92%
Long-term debt	**43,221**	33,835	28%
Shareholders' equity	**107,860**	53,306	102%
Net capital expenditures	**101,416**	55,995	81%
Common shares outstanding at year end			
Basic	**28,257**	22,459	26%
Fully diluted	**30,528**	27,674	10%
OPERATING			
Production			
Natural gas (mmcf/day)	**65.9**	31.0	113%
Oil and liquids (bbls/day)	**873**	642	36%
Oil equivalent (boe/day)	**7,462**	3,742	99%
Product prices			
Natural gas ($/mcf)	**2.67**	2.03	32%
Oil and liquids ($/bbl)	**25.22**	16.76	50%
Oil equivalent ($/boe)	**26.49**	19.66	35%
Cash flow netback ($/boe)	**16.91**	11.30	50%
Operating expenses ($/boe)	**3.37**	3.76	(10%)
General and administrative expenses ($/boe)	**0.32**	0.49	(35%)
Undeveloped land			
Gross acres	**513,953**	337,024	53%
Net acres	**416,396**	244,258	70%
Average working interest	**81%**	72%	9%
Proven plus probable reserves			
Natural gas (bcf)	**223.6**	121.7	84%
Oil and liquids (mbbls)	**3,337**	1,789	87%
Oil equivalent (mboe)	**25,699**	13,959	84%
Finding and on-stream costs ($/boe)			
Proven producing	**8.78**	8.57	2%
Total proven	**8.32**	7.04	18%
Proven and probable	**7.01**	6.31	11%
Recycle ratio			
Proven producing	**1.9**	1.3	46%
Total proven	**2.0**	1.6	25%
Proven and probable	**2.4**	1.8	33%

STRIVING FOR EXCELLENCE IN OPERATIONS

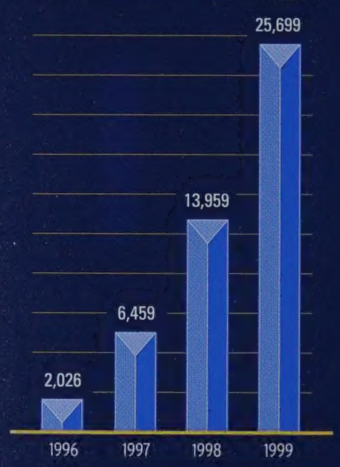
- Executed Bonavista's largest capital program to date of $101 million
- Drilled 90 wells (83.8 net) with an 81 percent success rate
- Increased daily average production by 99 percent over 1998
- Added significant reserves through drilling and acquisitions by replacing 530 percent of 1999 production
- Installed or purchased an interest in 10 new compressor stations in Core Regions
- Completed 22 synergistic acquisitions in Bonavista's four Core Regions which included establishing a new Central Core Region through six property acquisitions
- Expanded net undeveloped land by 277 percent, of which 91 percent is in our Core Regions
- Increased operatorship of production base to 96 percent.



PRODUCTION
(boe/day)



UNDEVELOPED LAND
(thousands of net acres)



RESERVES
(mboe)

ACHIEVING OUR 1999 TARGETS:

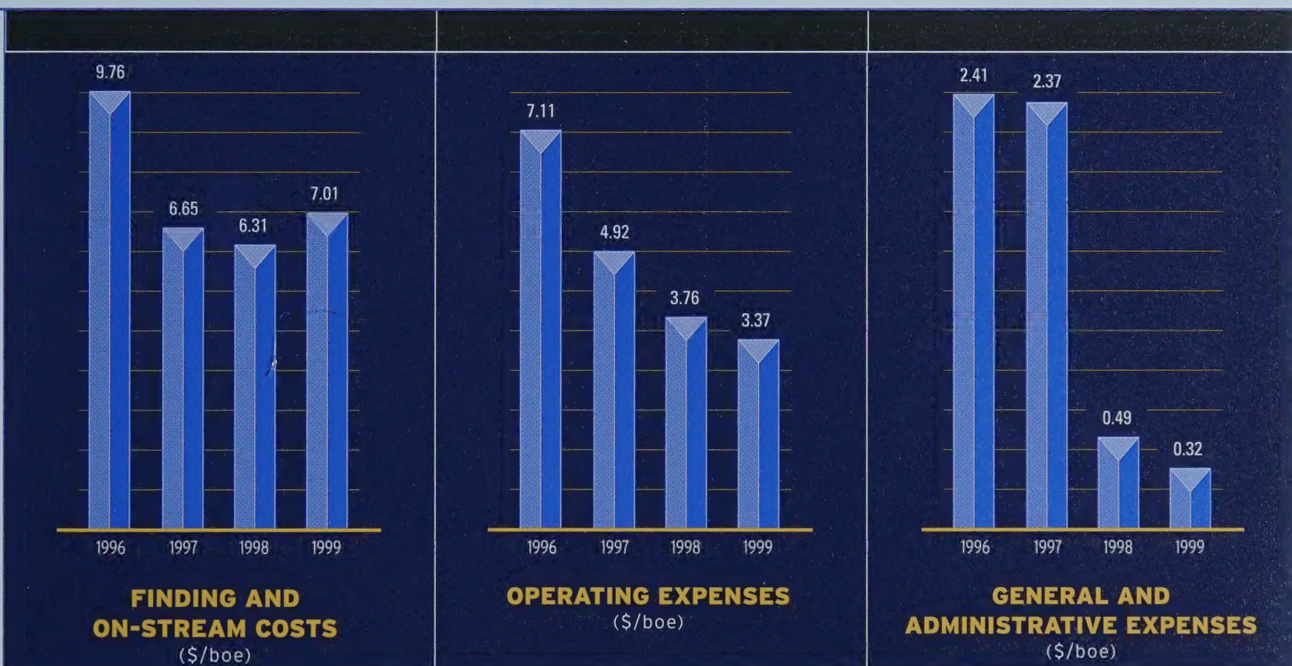
	Actual	Initial 1999 Target
Production (boe/day) – 1999 Average	**7,462**	6,300
– 1999 Exit	**9,600**	7,100
Undeveloped land (net acres)	**416,396**	340,000

OUR 2000 TARGETS:

- Production of 11,800 boe per day (105 mmcf per day of natural gas and 1,300 bbls per day of oil and liquids)
- Increase average working interest and undeveloped land position to 550,000 net acres

STRIVING FOR EXCELLENCE IN FINANCIAL CONTROL

⅄ Bonavista operated 89 of 90 wells drilled in 1999 ⅄ Implemented cost controls to improve economics and maintain low finding and on-stream costs ⅄ Achieved ranking as one of the five lowest cash-cost producers in the industry in 1999 ⅄ Increased production throughput of underutilized facilities, reducing operating expenses per boe by 10 percent ⅄ Increased efficiency of office overhead costs, resulting in a 35 percent decrease of general and administrative expenses on a per boe basis ⅄ Maintained financial flexibility with year-end debt to running cash flow of 0.8 to 1 ⅄ Expanded Bonavista's bank facility from $61 million to $90 million.

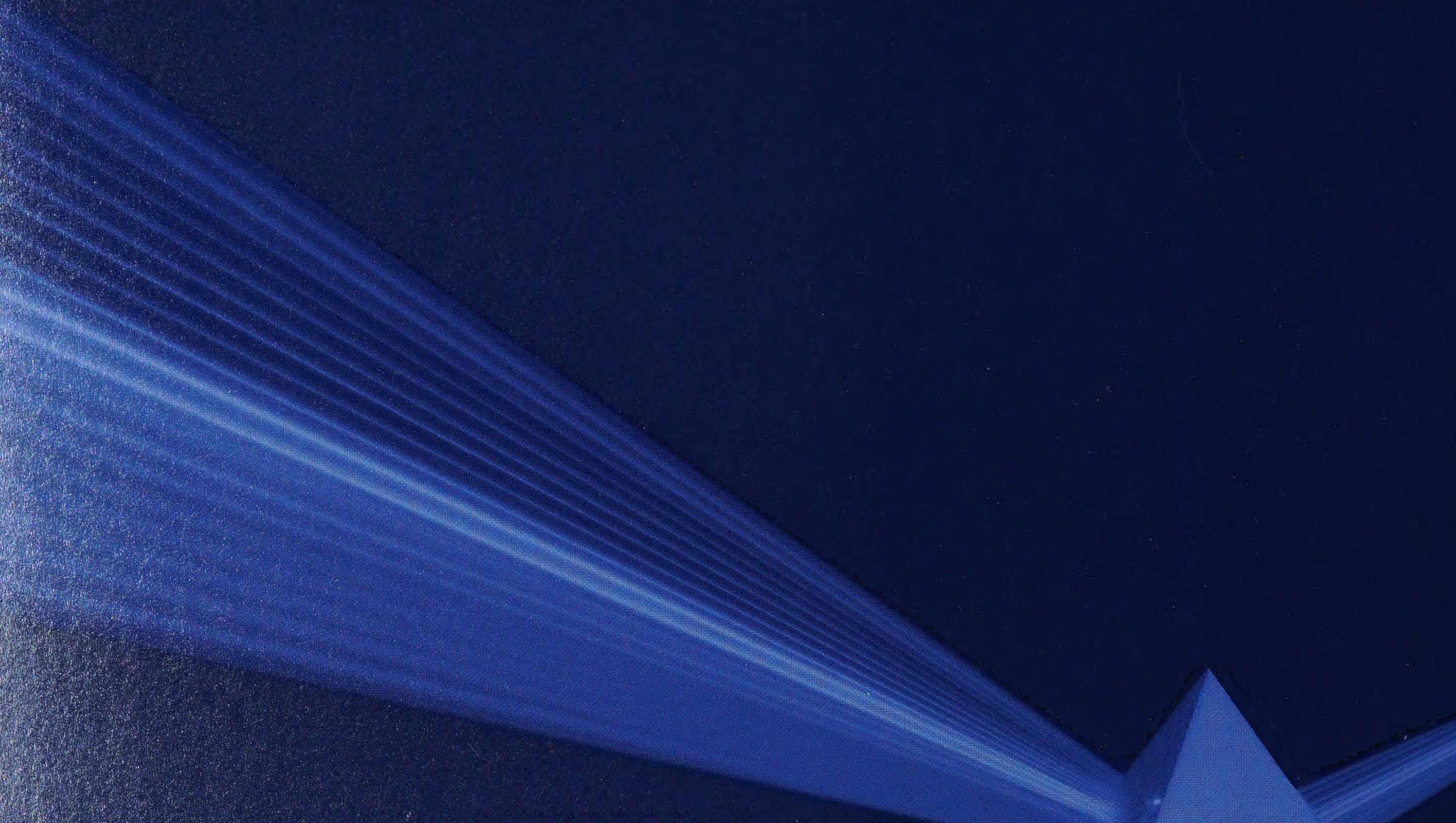


ACHIEVING OUR 1999 TARGETS:

	Actual	Initial 1999 Target
Operating expenses ($/boe)	**$ 3.37**	$ 3.40
General and administrative expenses ($/boe)	**$ 0.32**	$ 0.45
Debt to running cash flow ratio	**0.8:1**	less than 2.0:1

OUR 2000 TARGETS:

- Reduce operating expenses to $3.30 per boe
- Reduce general and administrative expenses to $0.30 per boe
- Retain financial flexibility with debt less than two times cash flow



OUR STRENGTH IS OUR PEOPLE

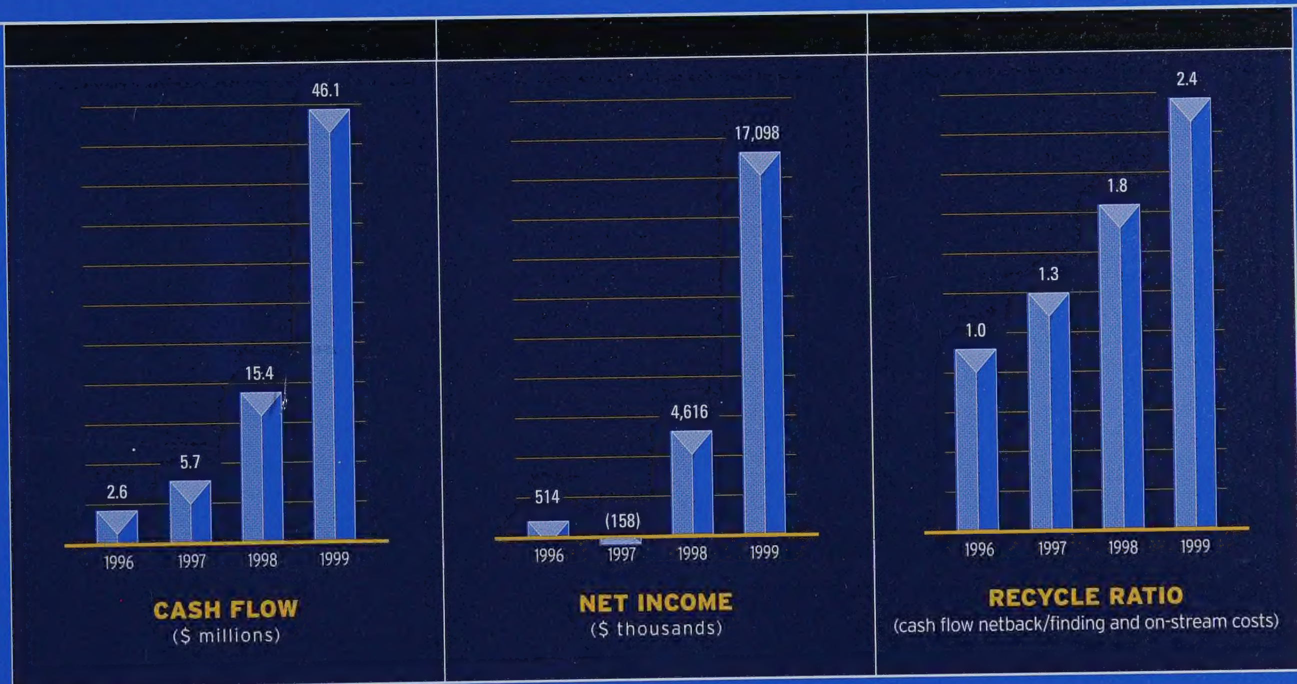
The foundation of all successful companies is determined by those who build it. To be profitable also requires synergy. A Company achieves that by having a balance of skill, foresight and drive. It is also necessary to have a clear and common purpose to blend that dynamism. The people at Bonavista bring a multitude of talent to the mix and that is what makes our foundation so strong. Expanding our foundation and growing profitably is achievable only through the persistent effort and competence of our team. Our greatest strength truly is our people.

OUR FOCUS IS PROFITABLE GROWTH

Capable people, sound ideas and vision do not alone guarantee success, when coupled with a single-minded commitment to a sound business plan focused on sustainable, long-term profitability, growth is certain to follow. Bonavista has a commitment to their shareholders to grow profitably. We are determined to concentrate our efforts on fortifying the foundation we have built and will continue to employ the strategies that have led to Bonavista's consistent success. We remain focused on profitable growth.

STRIVING FOR EXCELLENCE IN SHAREHOLDER VALUE

Increased 1999 cash flow by 198 percent to $46.1 million or $1.83 per share ▲ Improved cash flow per boe by 50 percent to $16.91, top decile performance in the industry ▲ Earned net income of $17.1 million or $0.68 per share ▲ Increased net income to cash flow ratio to 37 percent ▲ Attained a recycle ratio of 2.4 to 1 on a proven plus probable reserves basis and 2.0 to 1 on a proven reserves basis ▲ Improved return on equity to 21 percent .



ACHIEVING OUR 1999 TARGETS:

	Actual	Initial 1999 Target
Cash flow ($ millions)	**$ 46.1**	$ 32.0
Cash flow per share	**$ 1.83**	$ 1.33
Recycle Ratio	**2.4:1**	greater than 2.0:1

OUR 2000 TARGETS:

- Cash flow of $76 million or $2.78 per share (basic)
- Invest in opportunities which achieve a greater than 2.0:1 recycle ratio

MESSAGE TO SHAREHOLDERS

The responsibility of Bonavista's Board of Directors and management team is to build a strong foundation capable of sustaining long-term profitable growth. Bonavista holds the capital investment of its shareholders in trust. All of our people, from the head office staff to our people in the field, share a commitment to generate value from this investment.

This year Bonavista continues to build upon its long-term strategy implemented in November 1997 to initially restructure and generate a new business plan to create value and profitability for our shareholders. This year's annual report also combines the recognition that Bonavista's strength is its people while our focus continues to be on profitable growth. Historically, the oil and natural gas industry concentrated on cash flow and production growth as the key measures of value creation. Companies grew cash flow and production quickly, but failed to grow profitably. More recently, with the reduced availability of new equity to the oil and natural gas industry, investors are scrutinizing profitability and return on equity closely and using it as the primary basis from which to make their investment choices. Profitability is at the core of the Bonavista business plan. In 1998 and in 1999 we diligently strove to execute our plan, cultivate an environment for sustainable growth, and focus on value creation. As a result, record levels of growth in reserves, production, cash flow, net income in aggregate and on a per share basis, and return on equity were achieved. As a company, we endeavor to create enduring value according to these benchmarks and believe it is incumbent upon us to continue to earn the respect and confidence of our investors.

Articulating this goal is only the beginning. Our business strategy is, and always will be, well-grounded and prudent. Therefore, because of our steady focus and dedication we will continue to achieve a consistent level of profitability and credibility through the combined efforts of Bonavista's management and employees. At the heart of Bonavista's ability to create value is our people. Individuals have gathered together who share the Company's vision of profitable growth and who can adeptly execute the business plan. Bonavista's management team and employees have a commitment to seek the highest possible level of technical and managerial performance. This year we continue to build upon the 1997 corporate strategy and take it one step further by acknowledging the strength and involvement of our people and how corporately we have moved to a strong position of profitable growth. We remain dedicated to the proven strategies that have facilitated the success of the Bonavista story.

STRATEGIES FOR PROFITABLE GROWTH

The many successes of the current year are a direct consequence of staying the course of our initial business strategies. Hard work, focus, technical expertise and

"At Bonavista, everyone possesses a strong sense of ownership, as well as the fundamental values of integrity, respect, dedication and the business ideal of continuous improvement."

management control are the basis upon which we build and continue to reinforce our position. The key principles of these strategies are:

- **Building a qualified and experienced team -** A dedicated and determined team, given the proper tools and working environment, can create a top performer in any industry. To date, Bonavista has assembled a team of 34 qualified people, all of whom are shareholders, and all of whom are committed to the continual improvement of our performance.

  Commitment at the philosophical level is important, but profitable growth requires much more. The first step is having a healthy personal attitude. Being innovative and seeing the "big picture" while paying careful attention to the details are all part of making a strong contribution and being fully involved in the decision process. At Bonavista, everyone possesses a strong sense of ownership, as well as the fundamental values of integrity, respect, dedication and the business ideal of continuous improvement. Secondly, each person in a company committed to profitable growth is able to see their value not only as an individual, but also as a member of the team. There is an abundance of expertise and chemistry at Bonavista. Many employees have previously worked together at other organizations, and have chosen to join together to pursue a common goal of creating a profitable and dynamic company.

  Taking these ideals forward, the challenge for Bonavista will be to retain and expand the strength of our human resources and continue executing our corporate strategy. As Bonavista grows, discipline and attention to detail at every level remain critical. Bonavista is not a wildcat driller and therefore places less emphasis on the glory of the "big play" than on the detailed evaluation of each prospect's economics. The hottest looking plays don't necessarily stand up to our rigorous economic criteria, such as return on investment and recycle ratio. The final decision is determined by drawing upon the breadth of our team's experience and expertise.

  At Bonavista, we believe our ongoing commitment to cultivating a productive and stimulating environment for our employees, based on fundamental values and a strong business plan, will enable each individual to contribute to their full potential in a unique way which will ultimately benefit the company and our shareholders. Our strength truly is our people. Our shared focus is profitable growth.

- **Achieving operational control and dominance -** Dominance in our Core Regions through a strong land position, operatorship and ownership of facilities and gathering systems is paramount to controlling the timing and cost of exploration and development activities, as well as the speed at which we tie-in production. As a result of strengthening our position in our Core Regions, we currently have an average working interest in our production base of 93 percent. Today we operate approximately 96 percent of our production and in 1999 we operated all but one of the 90 wells drilled. Our high working interest ownership of a large number of facilities and infrastructure in our Core Regions ensures rapid

> *"We endeavor to achieve the highest possible reinvestment efficiency, and to that end continuously monitor all aspects of our spending, including finding and on-stream, operating, general and administrative, and interest costs."*

conversion of undeveloped land and non-producing reserves to producing reserves, and helps us to maintain our competitive advantage. By maintaining control and dominance in Core Regions, we can maximize the value of Bonavista's existing and future assets.

- **Enforcing strict cost control -** We strive to reduce unit costs wherever possible by maintaining control of our operations and by ensuring spending efficiency is one of our top priorities. We endeavor to achieve the highest possible reinvestment efficiency, and to that end continuously monitor all aspects of our spending, including finding and on-stream, operating, general and administrative, and interest costs. We aim to maximize our use of capital and the return each project generates for our shareholders. Detailed reviews of each of our areas are regularly conducted with the goal of streamlining our operations and ultimately lowering our cost of doing business. We believe Bonavista's long-term profitable growth depends on our ability to continue to be one of our industry's lowest-cost finders and producers.

- **Maintaining financial flexibility -** Financial flexibility is an essential element in the capital intensive oil and natural gas business. By investing our shareholders' capital wisely and quickly converting the investment to cash flow, we believe that we can achieve top decile growth results while maintaining a strong balance sheet that includes a debt to running cash flow ratio of less than two to one.

1999 ACHIEVEMENTS

Nineteen ninety-nine was the second full year since Bonavista's new management team restructured the Company's operations. The Bonavista team is pleased to report to shareholders that in 1999 we again met or exceeded all of our objectives set out at the beginning of the year. Some of the key accomplishments in 1999 were:

- **Reduced controllable costs -** During 1999, we continued to successfully improve Bonavista's cost structure. This took a tremendous effort by every employee to focus on those direct expenses which could be controlled and resulted in lower operating, general and administrative and interest expenses on a per boe basis. We reduced these three key cost components of our business by 10 percent, 35 percent and 18 percent respectively. Although unit finding and on-stream costs increased slightly in 1999 due to increased industry activity, Bonavista generated higher economic returns as reflected in the improvement of its recycle ratio. In 1999 Bonavista has emerged as one of the lowest-cost producers in the industry, and we will continue to strive for further efficiencies in all areas of controllable costs.

- **Improved return on investment and profitability -** Lower unit costs and a weighting to natural gas combined to provide a corporate cash flow netback of $16.91 per boe, one of the highest reported in the industry in 1999. This high netback, compared to relatively low finding and on-stream costs, resulted in a 2.4 to 1 recycle ratio, which is top decile performance. Bottom-line profitability also improved dramatically from net income of $4.6 million, or $0.22 per share in 1998 to $17.1 million, or $0.68 per share in 1999. This level of net income provided shareholders with a return on equity of 21 percent.

- **Increased undeveloped land base and prospect inventory -** Commensurate with increasing production, cash flow and net income levels, we succeeded in significantly enhancing our undeveloped land position. At the end of 1999, Bonavista held 416,396 net acres of undeveloped land with an average working interest of 81 percent. This was an increase in undeveloped land of 172,138 net acres, or 70 percent over year-end 1998. In addition, 91 percent of our undeveloped land position exists within our four Core Regions of activity. This land base provides Bonavista with an excellent drilling prospect inventory for 2000 and beyond.

- **Added and expanded Core Regions -** Virtually all of Bonavista's increases in reserves and production in 1999 were derived from the three Core Regions described in our 1998 annual report – the Northwestern Region, the Eastern Region and the Southern Region, and a new Core Region, the Central Region which was established in the last half of 1999. In the Northwestern Region, an active drilling and acquisition program increased Bonavista's exit rate production to 3,900 boe per day from 3,000 boe per day in 1998. In the Eastern Region, Bonavista increased production to 1,950 boe per day at year-end 1999 from 850 boe per day at year-end 1998. In the Southern Region, the 1999 exit production rate increased to 1,250 boe per day from 650 boe per day at year-end 1998. In the second half of 1999, Bonavista established its fourth Core Region through a series of six acquisitions in the Cherhill area in central Alberta. This oil and natural gas-prone region added 6.9 mmcf per day of natural gas production and 250 bbls per day of oil and liquids production, high working interests and operatorship in two natural gas plants and one oil battery, and 18,000 net acres of undeveloped land. The region meets Bonavista's technical and economic criteria for Core Region status, and will receive significant attention and effort in 2000 and beyond.

2000 OUTLOOK

The changes we have implemented to date have transformed Bonavista into a dynamic, emerging intermediate oil and natural gas producer. This growth is underpinned by our strong asset base, which we significantly expanded in 1999 by investing $101 million in exploration, development and acquisitions in our Core Regions. The validity of Bonavista's strategy continues to be evident in our first quarter 2000 results. We have drilled 40 wells in the first three months, resulting in 32 natural gas wells and one oil well. During the remainder of the year, we plan to drill 85 additional wells in our four Core Regions and will continue to pursue complementary property acquisitions. Accordingly, Bonavista has a capital budget program of $120 million for 2000, including $50 million for property acquisitions. Our 2000 budget is based upon average benchmark commodity prices of $2.95 per mcf at the Alberta Fieldgate for natural gas and US$22.00 per bbl for West Texas Intermediate oil. These assumptions will allow Bonavista to attain its forecast average production volumes of 105 mmcf per day of natural gas and 1,300 bbls per day of oil and liquids. This program is expected to generate cash flow in excess of $76 million or $2.78 per share. Production at the end of the first quarter was 100 mmcf per day of natural gas and 1,200 bbls per day of oil and liquids, or

"The changes we have implemented to date have transformed Bonavista into a dynamic, emerging intermediate oil and natural gas producer."

11,200 boe per day, providing an excellent foundation for accomplishing our 2000 targets. Oil and natural gas prices remain volatile and therefore require considerable attention when planning capital programs. Recognizing that industry conditions change quickly, Bonavista retains the flexibility to accelerate or throttle back its capital program.

We believe Bonavista is strategically positioned operationally and financially to report record results through 2000 and beyond. Our proven growth strategy, focused and dedicated staff, extensive property inventory and the tremendous support from our existing shareholders will allow us to continue to take advantage of the potential offered by the Western Canadian Sedimentary Basin. We are determined to keep Bonavista on track for profitable growth.

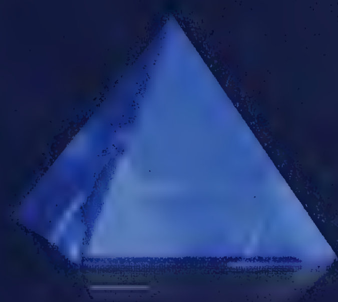
We wish to thank all of our shareholders for their support in the implementation of this business plan, our Board of Directors for their guidance and our employees for their dedicated efforts.

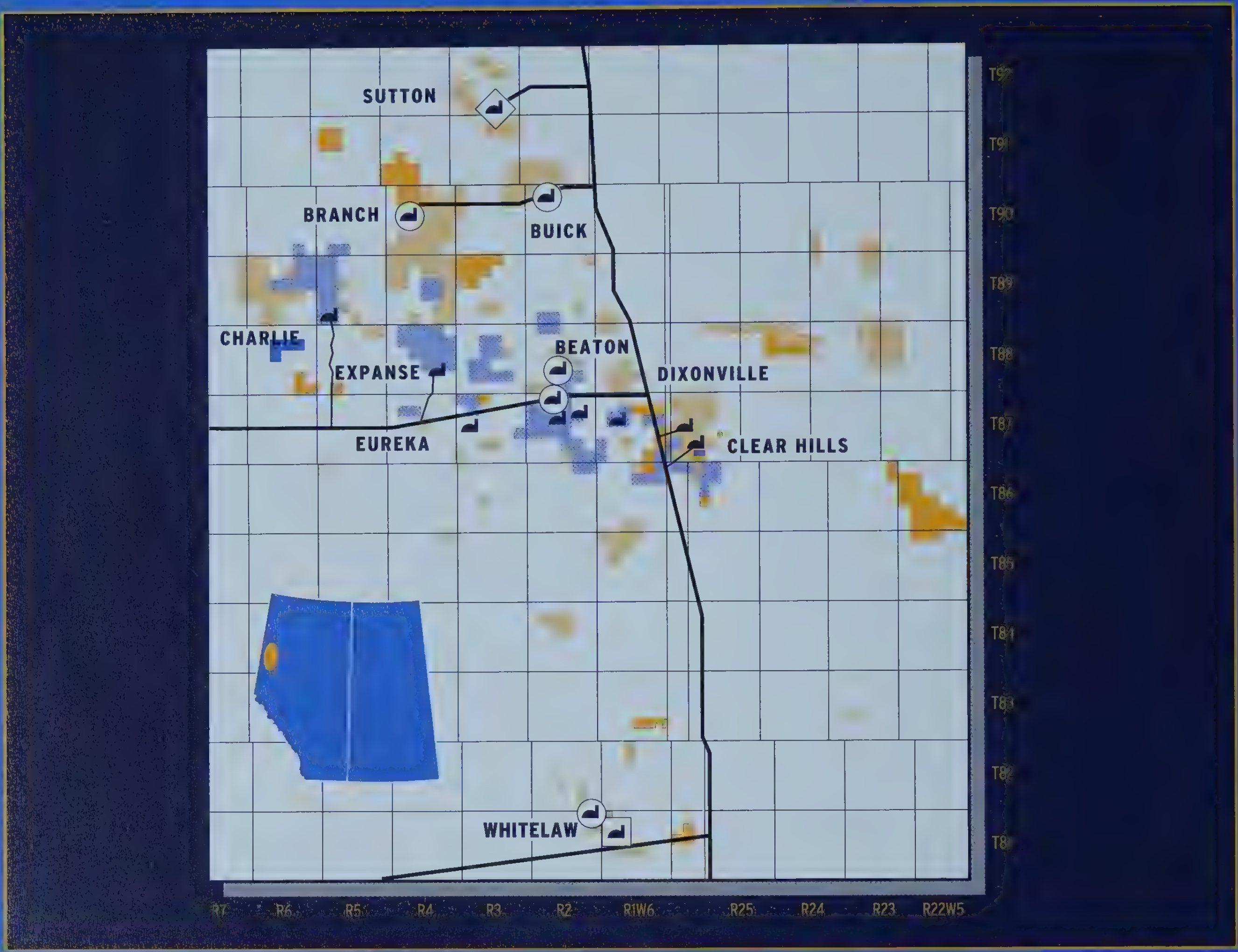
Keith A. MacPhail
President and Chief Executive Officer

Ronald J. Poelzer
Vice President and Chief Financial Officer
April 10, 2000

OPERATIONS AND EXPLORATION REVIEW

During 1999, Bonavista's asset base grew significantly through the investment of $101 million in exploration, development and acquisitions in its four core operating regions. This active exploration and development program included the drilling of 90 (83.8 net) wells, primarily in our Northwestern, Eastern, and Southern core regions, with an overall success rate of 81 percent. Bonavista operated all but one of these wells with an average working interest of 93 percent. ▲ To accommodate the new production from our drilling success, Bonavista installed or purchased an interest in 10 new compressor facilities in our Core Regions. ▲ Operatorship and high working interest ownership remain essential components of our business plan, and help ensure maximum benefit to our shareholders and control of the Company's future growth. In addition to the exploration and development program in 1999, Bonavista consummated 16 complementary acquisitions in its existing core areas and acquired six joint venture partners' interests in the Cherhill area of central Alberta, including two operated natural gas facilities, providing the foundation for Bonavista's fourth core region. ▲ Recently, Bonavista also significantly expanded its Eastern Core Region northward along the Alberta/Saskatchewan provincial border where shallow natural gas development will be the primary focus. ▲ All of Bonavista's core regions have extensive company-operated gathering and processing facilities, as well as a substantial contiguous undeveloped acreage position. These regions will be the primary areas of focus for Bonavista's 2000 development program. ▲ The program's record capital budget of $120 million will be comprised of $70 million for exploration and development and $50 million for core area consolidations. ▲ Bonavista's capital expenditures are forecast to result in growth of more than 58 percent in the 2000 daily average production rate to approximately 11,800 boe per day from 7,462 boe per day in 1999.





1 NORTHWESTERN REGION

The Northwestern region is currently producing 40 mmcf per day of natural gas and 280 bbls per day of oil and liquids, up from the daily average of 32.2 mmcf per day of natural gas and 253 bbls per day of oil and liquids in 1999. In this region we currently have an average working interest of 93 percent in 170,000 net acres of undeveloped land and operate 15 facilities which are all 100 percent owned and have a combined processing capacity of approximately 55 mmcf per day.

During 1999, Bonavista conducted a very active exploration, development and acquisition program in its Northwestern Region totalling $29 million in capital expenditures. The program included drilling 43 wells (43.0 net), installing one new compressor, increasing undeveloped land by 46,841 net acres and the consummation of five property purchases.

The Northwestern Region includes several properties, all operated by Bonavista, that collectively accounted for:

- 29 percent of 1999 capital expenditures
- 47 percent of 1999 production volumes
- 43 percent of proven and probable reserves at December 31, 1999
- 41 percent of undeveloped land holdings at December 31, 1999

Bonavista plans to spend $20 million of the 2000 capital program in this area, including drilling 45 (45.0 net) wells, recompleting up to 15 wells and installing two compressors. In the first quarter of 2000, Bonavista had an active drilling program in the Northwestern Region, including 14 (14.0 net) wells, resulting in 12 (12.0 net) natural gas wells for a success rate of 86 percent.

2 EASTERN REGION

In the Eastern Region, Bonavista has an average working interest of 80 percent and operates 11 natural gas facilities with a combined processing capacity of 60 mmcf per day net to Bonavista. The Company has ownership interests in various gathering systems and pipelines, which span in excess of 240 miles in this region, allowing new reserves to be brought on-stream quickly and cost-effectively.

During 1999, Bonavista invested $27 million in the Eastern Region, including drilling 20 (18.0 net) wells, installing and purchasing three compressors and increasing our undeveloped land position by 70,462 net acres. In addition, we completed three transactions in the area in the first quarter of 2000, acquiring 9.0 mmcf per day of natural gas production and approximately 30,000 net acres of undeveloped land.

As a result of tying-in recently drilled wells, current production from this region is 30.0 mmcf per day of natural gas and 80 bbls per day of oil and liquids, compared to an average of 14.2 mmcf per day and 78 bbls per day of oil and liquids in 1999. The Eastern Region properties, all of which Bonavista operates, accounted for:

- 27 percent of 1999 capital expenditures
- 20 percent of 1999 production volumes
- 18 percent of proven and probable reserves at December 31, 1999
- 24 percent of undeveloped land holdings at December 31, 1999

In 2000, Bonavista plans to invest $20 million of capital expenditures in the Eastern Region, including drilling 45 (40.0 net) wells and recompleting 10 additional wells. These projects are forecast to expand production to approximately 38 mmcf per day of natural gas and 100 bbls per day of oil and liquids by year-end 2000.

Bonavista's major properties and activities are concentrated within four core regions in Alberta. As a result of our strategic positioning in each region, Bonavista has **significant opportunities** for expanding its exploration and development programs and continuing with its synergistic property acquisitions programs. These core regions constitute a **well-balanced portfolio** of Company-operated producing properties and exploration and development prospects with significant **upside potential.** The four core operating regions are the Northwestern, Eastern, Southern and Central Regions. Bonavista also has less significant operations in southeastern Saskatchewan.

1 NORTHWESTERN REGION

Established in 1997, the Northwestern Region is currently Bonavista's largest core region, located north of the city of Peace River in northwest Alberta. This region is characterized by moderate deliverability natural gas reserves in multiple, medium-depth horizons in the Devonian, Triassic and Cretaceous formations.

2 EASTERN REGION

Bonavista's Eastern Region is the Company's second largest core region. It was also created in 1997 and is located along the Alberta/Saskatchewan provincial border extending between the towns of Oyen and Cold Lake, Alberta. This region is characterized by production from shallow to medium-depth, multi-zone horizons, primarily from the Second White Specks, Colony, Viking, Glauconite and Detrital zones.

3 SOUTHERN REGION

Bonavista's Southern Region was established through two acquisitions in mid-1998 and is located adjacent to the city of Lethbridge in southern Alberta. This region is characterized by production from medium-depth, multi-zone horizons, primarily from the Bow Island, Basal Colorado and Barons Sandstone zones, with deeper exploration potential in the Mississippian and Devonian formations.

4 CENTRAL REGION

The Central Region is Bonavista's newest core region. It was established in 1999 through six property acquisitions and is located approximately 50 miles northwest of the city of Edmonton, Alberta. This region has the potential for higher impact prospects than the other regions and is characterized by prolific oil and natural gas production from medium-depth, multi-zone horizons, primarily from the Nordegg, Banff, Glauconite, Viking and Belly River zones.

Striving for

profitable growth

Year	PRODUCTION Natural Gas (mmcf/day)	Oil and Liquids (bbls/day)	Combined (boe/day)	UNDEVELOPED LAND Net Acres (000's)	Average Interest (%)	DRILLING Activity (wells)

1 NORTHWESTERN REGION

November, 1997	7.5	42	792	35,840	62.4	–
Annual 1998	18.3	248	2,078	121,705	91.9	31
Annual 1999	32.2	253	3,473	168,546	92.4	42
Q1 2000 Exit	40.0	280	4,280	170,000	93.0	14 (ytd)

2 EASTERN REGION

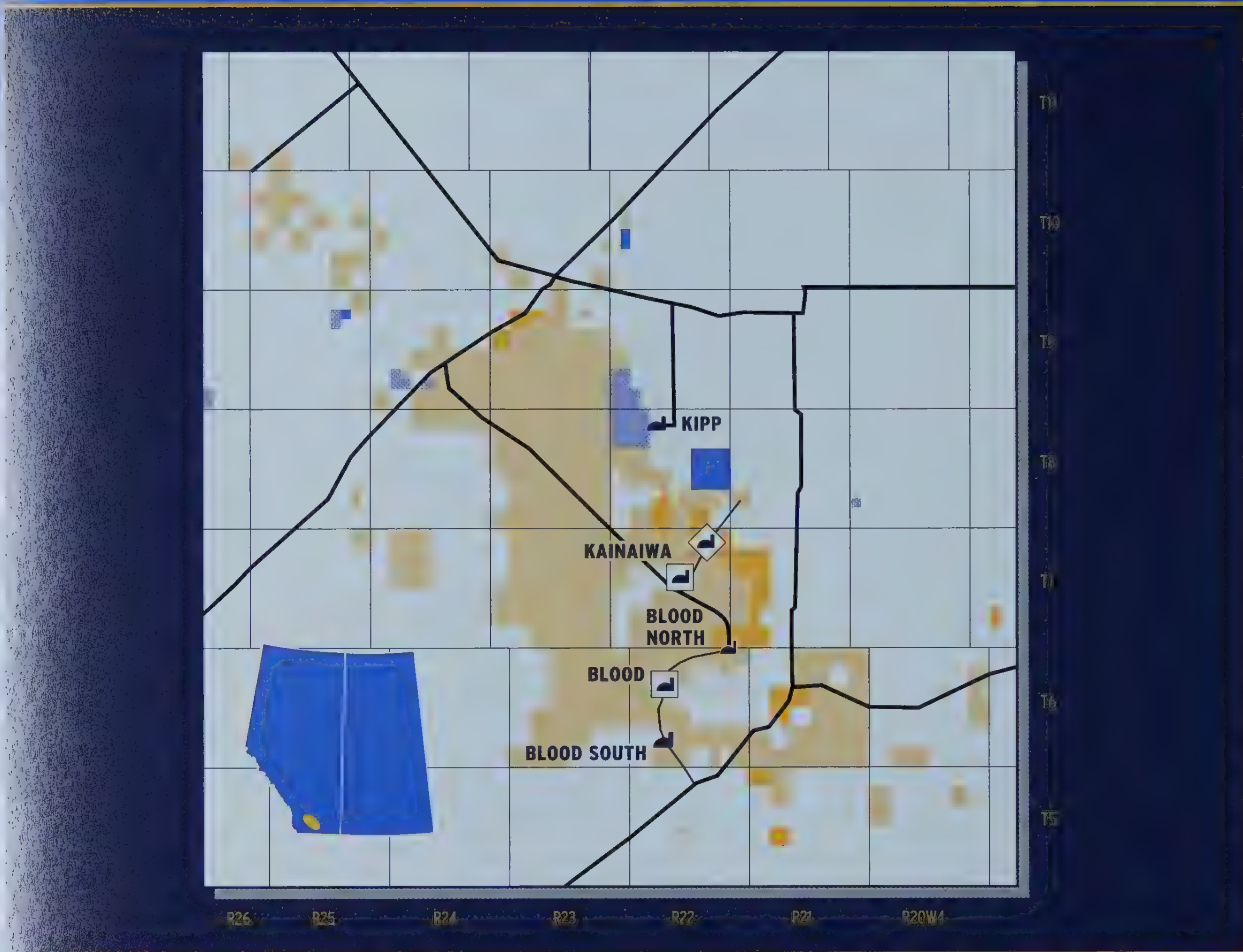
November, 1997	4.8	21	501	6,080	46.8	–
Annual 1998	8.2	42	862	28,579	70.7	8
Annual 1999	14.2	78	1,498	99,041	79.9	20
Q1 2000 Exit	30.0	80	3,080	143,000	82.0	19 (ytd)

3 SOUTHERN REGION

May, 1998	0.9	–	90	960	18.2	–
Annual 1998	3.2	2	322	83,927	73.9	–
Annual 1999	10.2	26	1,046	84,390	74.8	23
Q1 2000 Exit	12.5	180	1,430	90,000	75.0	5 (ytd)

4 CENTRAL REGION

April, 1999	1.9	–	190	2,059	67.2	–
Annual 1999	7.4	201	941	18,792	77.1	4
Q1 2000 Exit	15.0	450	1,950	24,000	80.0	2 (ytd)



UTHERN REGION

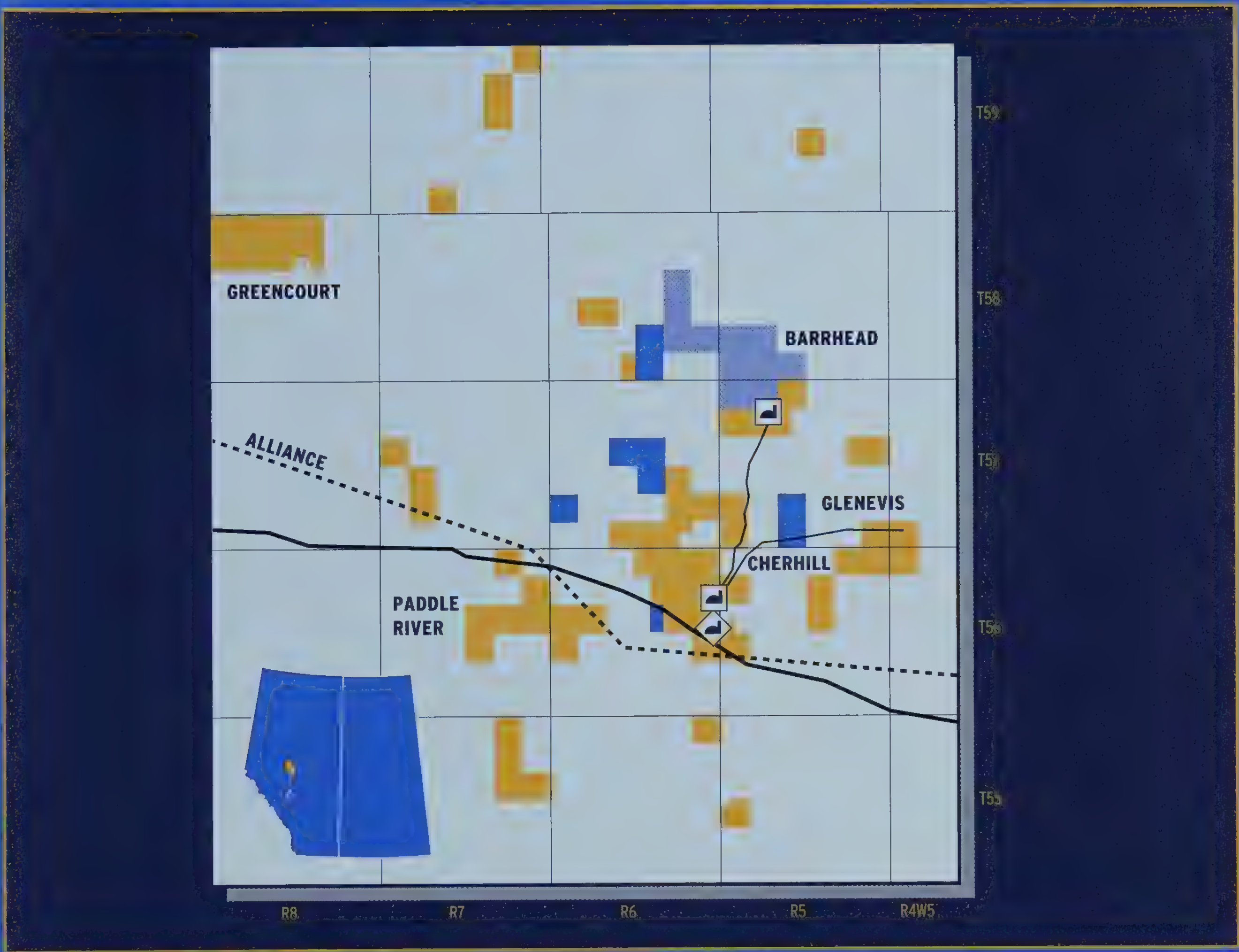
The Southern Region was a new region created Bonavista in mid-1998 through two strategic property quisitions. These initial acquisitions were comprised 6.5 mmcf per day of natural gas production, three rated natural gas plants with combined processing pacity of 27 mmcf per day and 84,000 net acres of developed land.

During 1999, Bonavista invested $12 million in the uthern Region which included drilling 23 (20.7 net) wells, alling or purchasing two compressors and increasing our developed land position. Bonavista also has the opportunity to earn an additional 55,000 net acres of land through special exploration permits with the Blood First Nations.

The Southern Region properties, all of which are operated by Bonavista, collectively accounted for:

- 12 percent of 1999 capital expenditures
- 14 percent of 1999 production volumes
- 11 percent of proven and probable reserves at December 31, 1999
- 21 percent of undeveloped land holdings at December 31, 1999

As a result of Bonavista's first quarter 2000 capital program, current production from the Southern Region is 12.5 mmcf per day of natural gas and 180 bbls per day of oil and liquids, up from a daily average of 10.2 mmcf per day and 26 bbls per day respectively, in 1999. Bonavista plans to invest a total of $13 million in exploration and development activities in the Southern Region throughout 2000 which will fund drilling of 20 (16.0 net) wells, recompleting up to six additional wells, installing a new compressor station and tying-in new and previously drilled wells. These projects will continue to expand natural gas production in the area to about 15 mmcf per day by yearend. In addition, a light oil discovery made in this region in mid-1999 will be pursued more aggressively in 2000 and should result in oil production increasing to 400 bbls per day by yearend.



CENTRAL REGION

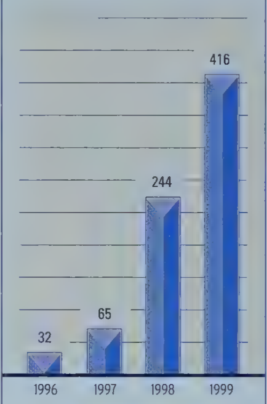
The Central Region is Bonavista's newest core area which was established through six property acquisitions in 1999. Bonavista currently has an average working interest exceeding 95 percent in this area, and operates two natural gas plants with processing capacity of 15 mmcf per day and an oil battery with treating capacity of 1,000 bbls per day. Bonavista has ownership interests in various gathering systems and pipelines which span more than 20 miles, allowing Bonavista to bring new reserves on-stream quickly and cost-effectively.

During 1999, Bonavista invested $32 million in the Central Region which included acquisitions, drilling 4 (3.7 net) wells and increasing our undeveloped land position to approximately 18,800 net acres. As a result of workovers and tying-in recently drilled wells, production from this area is currently averaging 15 mmcf per day of natural gas and 450 bbls per day of oil and liquids. The Central Region properties, virtually all of which Bonavista operates, accounted for:

- 32 percent of 1999 capital expenditures
- 11 percent of 1999 production volumes
- 16 percent of proven and probable reserves at December 31, 1999
- 5 percent of undeveloped land holdings at December 31, 1999

In 2000, Bonavista plans to invest $13 million of capital expenditures in the Central Region including drilling 15 (14.0 net) wells, recompleting 6 additional wells and expanding the Cherhill natural gas plant by 5 mmcf per day. These projects are expected to increase production to approximately 18 mmcf per day of natural gas and 500 bbls per day of oil and liquids by year-end 2000.

UNDEVELOPED LAND



UNDEVELOPED LAND
(thousands of net acres)

Bonavista recognizes the importance of continually expanding its undeveloped land base in order to maintain an inventory of drilling prospects sufficient to sustain the Company's growth. To this end, Bonavista expanded its land base significantly in 1999 through participation in Crown land sales, industry farm-ins and acquisitions of producing properties which included undeveloped land. In 1999, Bonavista increased its land base by 70 percent to 416,396 net acres. Of this increase, 86,500 acres was acquired at Crown land sales at an average cost of $59 per acre. Almost 91 percent of Bonavista's undeveloped land is contained within our four core regions; the average working interest has increased from 72 percent in 1998 to 81 percent in 1999. This trend will continue due to the Company's focus on high working interest ownership. Bonavista has identified over 200 drilling locations on this undeveloped land base.

In 2000 the Company expects to continue increasing its undeveloped acreage and the number of drilling prospects. Total expenditures on Crown land purchases are anticipated to be $8 million in 2000 versus $5 million in 1999. The following tables summarize Bonavista's inventory of undeveloped acreage on a year-to-year and core region comparative basis:

Year-end

December 31,	1999	1998	% Change
Gross acres	**513,953**	337,024	53
Net acres	**416,396**	244,258	70
Average working interest	**81.0%**	72.4%	9
ESTIMATED VALUE ($ millions)	**$ 29.1**	$ 15.8	74

Regional Breakdown

	Gross	Net		Average Working Interest
	(acres)	(acres)	(% of total)	
Northwestern region	182,373	168,546	41%	92.4%
Eastern region	123,871	99,041	24%	79.9%
Southern region	119,585	89,390	21%	74.8%
Central region	24,360	18,792	5%	77.1%
Other areas	63,764	40,627	9%	63.7%
TOTAL UNDEVELOPED LAND	**513,953**	**416,396**	**100%**	**81.0%**

SEISMIC

Bonavista utilizes extensive geophysics, both two and three dimensional, to delineate geological features such as pools or trends, to increase the certainty of its drilling prospects. In 1999, Bonavista invested $2.6 million in seismic related activity. Approximately $5.0 million of the 2000 capital program has been allocated to acquiring additional seismic data which will supplement our existing seismic data base of over 8,000 miles.

PETROLEUM RESERVES

Bonavista's petroleum reserves have been evaluated as at January 1, 2000, by independent engineers. The following table summarizes the key information of these reserves:

	NATURAL GAS		OIL AND LIQUIDS		PRESENT VALUE OF CASH FLOW BEFORE TAX DISCOUNTED AT (2)		
	Gross (1)	Net (1)	Gross (1)	Net (1)	0%	10%	15%
	(mmcf)	(mmcf)	(mbbls)	(mbbls)	(000's)		
Proven producing	154,608	119,676	2,435	2,075	$ 342,297	$ 228,438	$ 198,295
Proven non-producing	26,966	21,194	153	125	46,750	26,582	21,782
ARTC	–	–	–	–	9,140	4,764	3,750
Total proven	181,574	140,870	2,588	2,200	398,187	259,784	223,827
Probable	42,051	32,397	749	645	88,444	39,100	29,598
ARTC	–	–	–	–	1,729	327	158
TOTAL	**223,625**	**173,267**	**3,337**	**2,845**	**$ 488,360**	**$ 299,211**	**$ 253,583**

(1) "Gross" reserves are the total remaining recoverable reserves owned by Bonavista before deduction of royalties. "Net" reserves are defined as those accruing to Bonavista after all royalty interests owned by others, including Crown and freehold royalties, have been deducted.

(2) The pricing forecast used in determining the value of cash flow is based on the March 1, 2000, McDaniel & Associates Consultants Ltd. engineering price forecast.

Reconciliation of Reserves

	NATURAL GAS (mmcf)			OIL AND LIQUIDS (mbbls)		
	Proven	Probable	Total	Proven	Probable	Total
Reserves, January 1, 1998	35,527	11,344	46,871	1,156	616	1,772
Net additions	72,566	12,746	85,312	339	11	350
Revisions	2,751	(1,924)	827	73	(172)	(99)
Production	(11,314)	–	(11,314)	(234)	–	(234)
Reserves, January 1, 1999	99,530	22,166	121,696	1,334	455	1,789
Net additions	106,733	21,396	128,129	1,406	337	1,743
Revisions	(643)	(1,504)	(2,147)	167	(43)	124
Production	(24,049)	–	(24,049)	(319)	–	(319)
RESERVES, JANUARY 1, 2000	**181,571**	**42,058**	**223,629**	**2,588**	**749**	**3,337**

RESERVE LIFE INDEX AND RESERVE REPLACEMENT RATIO

The following table outlines the longevity and the magnitude of reserve additions as indicated in the reserve life index and reserve replacement ratio for Bonavista in 1999:

	Natural Gas	Oil and Liquids	Total Boe
December 31, 1999 exit production	85.0 mmcf/day	1,100 bbls/day	9,600 boe/day
Reserve life index (years)			
Proven reserves	5.8	6.5	5.9
Proven and probable reserves	7.2	8.3	7.3
Reserve replacement ratio (reserve additions/1999 production)			
Proven	4.4	4.9	4.5
Proven and probable	5.2	5.9	5.3

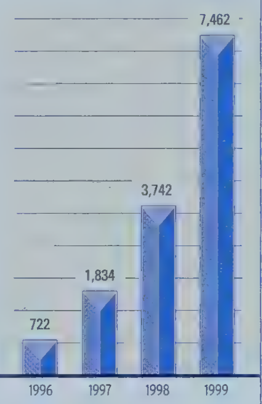
Efficiency Ratios

The following outlines two performance measurements which depict the overall efficiency of capital invested during the year: Finding and on-stream costs and the Recycle ratio. In 1999, Bonavista posted strong results in these performance measurements which provided the foundation for strong growth in profitability.

	1999	1998	% Change
Net capital expenditures (000's)	**$ 101,416**	$ 55,995	81%
Reserve additions (mboe's)			
Proven producing	**11,552**	6,534	77%
Proven	**12,182**	7,944	53%
Proven and probable	**14,465**	8,953	62%
Finding and on-stream costs ($/boe)			
Proven producing	**8.78**	8.57	2%
Proven	**8.32**	7.04	18%
Proven and probable	**7.01**	6.31	11%
Cash flow netback ($/boe)	**16.91**	11.30	50%
Recycle ratio (Cash flow netback/finding and on-stream costs)			
Proven producing	**1.9**	1.3	46%
Proven	**2.0**	1.6	25%
Proven and probable	**2.4**	1.8	33%

PRODUCTION

Bonavista's average daily production increased by 99 percent to 7,462 boe per day in 1999 from 3,742 boe per day in 1998. Natural gas production rose by 113 percent to 65.9 mmcf per day in 1999 from 31.0 mmcf per day in 1998, while oil and liquids production increased by 36 percent to 873 bbls per day in 1999 from 642 bbls per day in 1998. Entering the second quarter of 2000 production volumes are continuing to rise to approximately 11,200 boe per day, consisting of 100 mmcf per day of natural gas and 1,200 bbls per day of oil and liquids.



PRODUCTION
(boe/day)

Production by Region

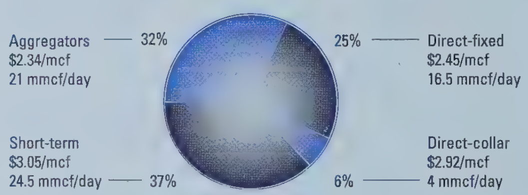
	1999 AVERAGE PRODUCTION			1998 AVERAGE PRODUCTION		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	(mmcf/day)	(bbls/day)	(boe/day)	(mmcf/day)	(bbls/day)	(boe/day)
Northwestern region	32.2	253	3,473	18.3	248	2,078
Eastern region	14.2	78	1,498	8.2	42	862
Southern region	10.2	26	1,046	3.2	2	322
Central region	7.4	201	941	–	–	–
Southeast Saskatchewan	–	227	227	–	242	242
Other	1.9	88	277	1.3	108	238
TOTAL PRODUCTION	65.9	873	7,462	31.0	642	3,742

MARKETING

Natural Gas

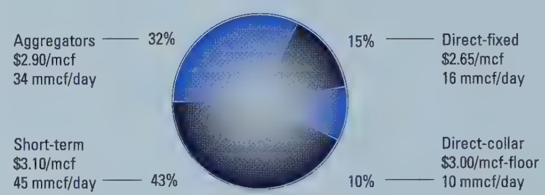
Bonavista's dynamic growth in natural gas deliverability and reserves in 1998 and 1999 created the need to develop a risk-mitigating strategy to balance the natural gas portfolio, both by term and market type. The Company's objective is to maintain a diverse natural gas sales portfolio with up to 40 percent of production being sold at prices fixed for one year or longer. The remainder of the natural gas volumes will be sold either to aggregators or to direct markets employing short-term variable pricing. Implementation of this strategy resulted in an average realized price of $2.67 per mcf for Bonavista in 1999 compared to $2.03 per mcf in 1998. For 2000 the Company is forecasting its natural gas price to average $2.95 per mcf. The respective contract portfolios for 1999 and 2000 are comprised of the following:

1999



Average of $2.67/mcf on 66 mmcf/day

2000F



Average of $2.95/mcf on 105 mmcf/day

Oil and Liquids

The majority of Bonavista's oil and liquids production is being sold to Tidal Energy Marketing on a month-to-month basis. In 1999, Bonavista's oil and liquids price increased by 50 percent to $25.22 per bbl from $16.76 per bbl in 1998. None of the Company's oil has been sold forward, nor does our strategy involve hedging oil prices at this time. The 2000 budget is based on an average WTI price of US$22.00 per bbl which converts to approximately CDN$27.50 per bbl realization price.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Bonavista's financial position and results of operations should be read in conjunction with the consolidated financial statements presented in this Annual Report.

OVERVIEW

The tables below set forth a summary of operations, including netbacks for 1999 compared to 1998, and netbacks on a product basis:

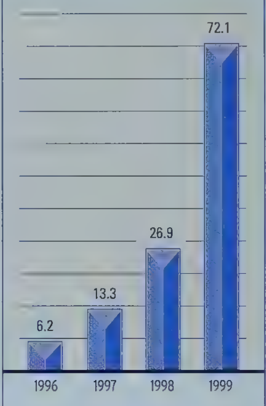
	1999		1998		% Change 1999 - 1998	
Production	**7,462 boe/day**		3,742 boe/day		99%	
	(000's)	**($/boe)**	(000's)	($/boe)	(total)	(per unit)
Field netbacks:						
Production revenue	**$ 72,135**	**$ 26.49**	$ 26,857	$ 19.66	169	35
Royalties	**(14,174)**	**(5.21)**	(5,062)	(3.71)	180	40
Alberta Royalty Tax Credit	**1,377**	**0.51**	1,387	1.02	(1)	(50)
Operating expenses	**(9,169)**	**(3.37)**	(5,145)	(3.76)	78	(10)
FIELD NETBACKS	50,169	18.42	16,037	13.21	178	39
General and administrative	**(876)**	**(0.32)**	(661)	(0.49)	33	(35)
Financing charges	**(2,830)**	**(1.04)**	(1,731)	(1.27)	63	(18)
Capital taxes	**(396)**	**(0.15)**	(203)	(0.15)	95	–
CASH FLOW NETBACK	46,067	16.91	15,442	11.30	198	50
Depreciation, depletion and site restoration	**(19,595)**	**(7.19)**	(9,958)	(7.29)	97	(1)
Deferred income taxes	**(9,374)**	**(3.44)**	(868)	(0.64)	980	438
NET INCOME	$ 17,098	$ 6.28	$ 4,616	$ 3.37	270	86

Netback by Product

	Oil and Liquids		**Natural Gas**		**1999 Total**	
1999 Production	**873 bbls/day**		**65.9 mmcf/day**		**7,462 boe/day**	
	(000's)	**($/bbl)**	**(000's)**	**($/mcf)**	**(000's)**	**($/boe)**
Field netbacks:						
Production revenue	**$ 8,033**	**$ 25.22**	**$ 64,102**	**$ 2.67**	**$ 72,135**	**$ 26.49**
Royalties	**(1,251)**	**(3.93)**	**(12,923)**	**(0.54)**	**(14,174)**	**(5.21)**
Alberta Royalty Tax Credit	**22**	**0.07**	**1,355**	**0.06**	**1,377**	**0.51**
Operating expenses	**(1,837)**	**(5.77)**	**(7,332)**	**(0.30)**	**(9,169)**	**(3.37)**
FIELD NETBACKS	$ 4,967	$ 15.59	$ 45,202	$ 1.88	$ 50,169	$ 18.42

REVENUES

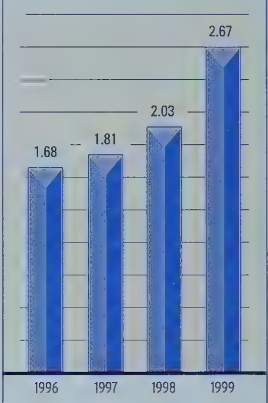
The continued execution of Bonavista's business plan resulted in significantly higher revenues, production, cash flow and net income again in 1999. Gross revenues for 1999 increased by 169 percent to $72.1 million from $26.9 million in 1998. Natural gas revenues rose by 180 percent to $64.1 million in 1999 from $22.9 million in 1998. Natural gas production for the year increased by 113 percent to 65.9 mmcf per day from 31.0 mmcf per day in 1998. At the same time, Bonavista achieved a 32 percent increase in the average natural gas price to $2.67 per mcf in 1999 from $2.03 per mcf in 1998. Revenues from oil and liquids increased by 105 percent in 1999 to $8.0 million from $3.9 million in 1998, primarily as a result of a 50 percent increase in the average oil and liquids price to $25.22 per bbl in 1999 from $16.76 per bbl in 1998. This increase in oil and liquids revenues was also partially as a result of a 36 percent increase in oil and liquids production to 873 bbls per day in 1999 from 642 bbls per day in 1998.



GROSS REVENUE
($ millions)

ROYALTIES

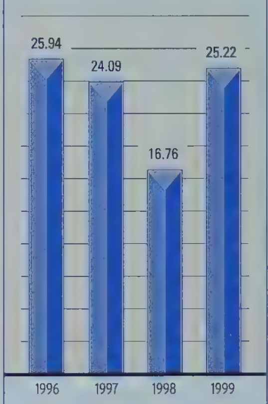
In 1999, royalties increased by 180 percent to $14.2 million from $5.1 million in 1998 due to higher gross revenues associated with increased production volumes. The average royalty rate, before ARTC, increased to 20 percent in 1999 from 19 per cent in 1998, as a result of the higher commodity prices realized in 1999. As in 1998, Bonavista earned the maximum ARTC amount and therefore the impact of ARTC on the average royalty rate was reduced. Consequently, the combination of higher royalty rates and a reduced impact of ARTC resulted in royalty rates after ARTC increasing to 18 percent in 1999 from 14 percent in 1998.



NATURAL GAS PRICING
($/mcf)

OPERATING EXPENSES

Increased production volumes contributed to a 78 percent increase in operating expenses, which totalled $9.2 million in 1999 compared to $5.1 million in 1998. On a per boe basis, operating expenses declined by 10 percent to $3.37 in 1999 from $3.76 in 1998. The decrease in average unit operating expenses reflects Bonavista's continued emphasis on reducing operating expenses at existing properties and the lower unit cost of additional natural gas production brought on-stream in 1999.



OIL AND LIQUIDS PRICING
($/bbl)

GENERAL AND ADMINISTRATIVE EXPENSES

Net general and administrative expenses increased by 33 percent to $0.9 million from the prior year's expense of $0.7 million. This increase was directly due to the increase in the overall size of operations in the Company. However, on a per unit basis, net general and administrative expenses decreased by 35 percent to $0.32 per boe in 1999 from $0.49 per boe in 1998. This occurred as a result of the Company's ability to manage a much larger capital and operating program in 1999 without a proportionate increase in corporate infrastructure.

FINANCING CHARGES

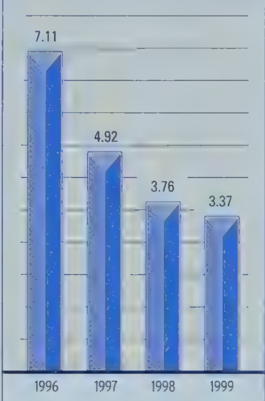
Financing charges increased by 63 percent in 1999 to $2.8 million from $1.7 million in 1998, reflecting slightly higher average debt levels associated with the 1999 capital program and higher interest rates in 1999.

DEPRECIATION, DEPLETION AND SITE RESTORATION

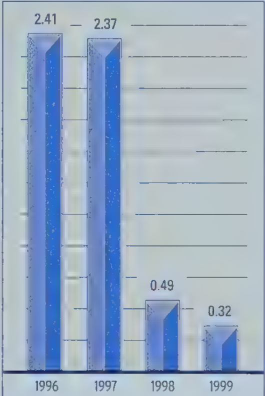
Depreciation, depletion and site restoration expenses rose by 97 percent to $19.6 million in 1999 from $10.0 million in 1998, as a direct result of Bonavista's increased asset base and production volumes. On a per boe basis, the average depreciation, depletion and site restoration rate decreased slightly to $7.19 in 1999 from $7.29 in 1998, as a direct result of the lower-cost proven reserve additions in 1999 and 1998 relative to prior years.

INCOME AND OTHER TAXES

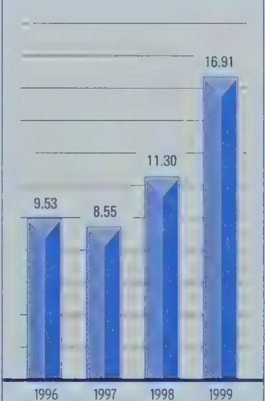
The provision for income and other taxes increased to $9.8 million in 1999 from the previous year's provision of $1.1 million. This resulted from Bonavista recording a deferred tax provision in 1999 of $9.4 million and capital taxes of $0.4 million which compares to a 1998 deferred tax provision of $0.9 million and capital taxes of $0.2 million. The dramatic increase in the deferred tax provision in 1999 is a direct consequence of the increased profitability in the Company due to cost control measures implemented and higher product prices and production rates during the year. The increase in the capital taxes is entirely due to higher Large Corporation Tax resulting from the increased capital structure of the Company. Effective January 1, 2000, Bonavista adopted the new guidelines of the Canadian Institute of Chartered Accountants for accounting for income taxes. This will result in a slightly higher effective tax rate used for recording income taxes, but will be offset by a lower rate for the depreciation, depletion and site restoration provision.



OPERATING EXPENSES
($/boe)



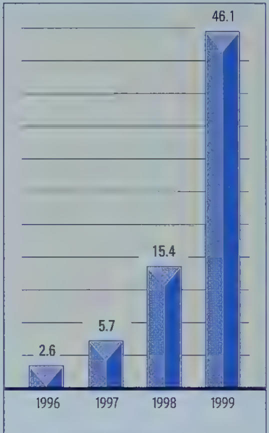
GENERAL AND ADMINISTRATIVE EXPENSES
($/boe)



CASH FLOW
($/boe)

CASH FLOW AND NET INCOME

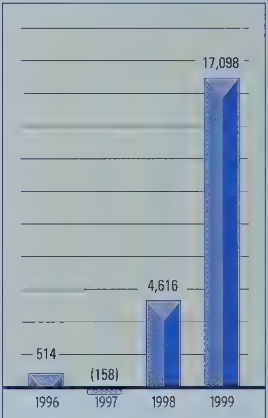
Bonavista enjoyed a substantially higher cash flow in 1999 due to the Company's increased production and higher prices from both natural gas and liquids. Cash flow was 198 percent higher at $46.1 million or $1.83 per share basic, compared to $15.4 million or $0.72 per share basic in 1998. Cash flow per boe increased by 50 percent to $16.91 per boe in 1999 from $11.30 per boe in 1998 due to rising product prices and reductions in unit operating, general and administrative and financing costs. In 1999, Bonavista achieved a cash flow netback which was one of the top five in the industry. Due to the significant increase in cash flow and decreased depreciation, depletion and site restoration costs on a per unit basis, Bonavista continued its upward profitability trend. Net income increased by 271 percent to $17.1 million or $0.68 per share basic in 1999, from $4.6 million or $0.22 per share basic in 1998.



CASH FLOW
($ millions)

CAPITAL EXPENDITURES

Bonavista conducted a full-cycle exploration and development capital program in 1999, spending $101.4 million. During the year, the Company participated in the drilling of 90 wells (83.8 net), which resulted in an overall success rate of 81 percent. During 1999, Bonavista added 12.2 million boe of proven reserves and 14.5 million boe of proven and probable reserves through drilling and acquisitions, net of revisions and dispositions. With $101.4 million of net capital expenditures in 1999, the investment cost on 1999 reserve additions was $8.32 per boe proven and $7.01 per boe on a proven plus probable basis. The following table outlines the capital expenditures in 1999 compared to 1998:



NET INCOME
($ thousands)

	1999	1998
	(000's)	(000's)
Land and acquisitions	**$ 60,143**	$ 30,447
Geological and geophysical	**2,587**	1,985
Drilling and completions	**23,884**	13,796
Production equipment and facilities	**14,603**	9,577
Other	**349**	205
Total capital expenditures	**101,566**	56,010
Dispositions	**(150)**	(15)
NET CAPITAL EXPENDITURES	**$ 101,416**	$ 55,995

TAX POOLS

Bonavista had $173.9 million of tax pools as at December 31, 1999. These tax pools will shelter Bonavista's taxable income in future years as well as add flexibility to pursue acquisitions. The following table summarizes the tax pool balances as at December 31, 1999:

	Available Balance (000's)	Maximum Annual Deduction
Canadian Exploration Expense	$ 22,308	100%
Canadian Development Expense	24,072	30%
Canadian Oil and Gas Property Expense	77,086	10%
Undepreciated Capital Cost	48,042	8% - 30%
Other	2,400	20% - 100%
TOTAL	$ 173,908	

LIQUIDITY AND CAPITAL RESOURCES

Bonavista's 2000 capital expenditure program will be approximately $120 million. To accommodate and accelerate the 1999 capital program and in anticipation of a record 2000 capital program in May, 1999, Bonavista completed the issuance of 2.5 million common shares at a price of $14.00 per share for proceeds of $35 million. The proceeds of this issue were used to increase the 1999 capital program by $20 million, with the remaining $15 million to be used to finance the 2000 capital program. The remaining portion of the 2000 capital program will be financed from approximately $76 million of cash flow expected to be generated in 2000 and $29 million through the unused portion of the existing bank loan facility.

In 2000, primarily all of Bonavista's capital expenditures are discretionary expenditures focused on exploration, development and acquisition activity, with only $3 million of capital expenditures expected to be non-discretionary in nature. Bonavista is readily able to adjust its expenditures as opportunities arise. At December 31, 1999, Bonavista's debt to running cash flow ratio was approximately 0.8:1. With the present profile of capital spending and cash flow growth, Bonavista anticipates its exit debt at December 31, 2000 to be $95 million or 1.1 times cash flow based on 2000 exit production rates.

Bonavista currently has a $90 million revolving demand loan facility that bears interest at prime and does not require any principal repayments in 2000. This facility will be expanded as required for capital spending and has been set below Bonavista's current borrowing base. The Company settles sales receivables and trade payables in accordance with normal industry practices. Working capital liquidity is maintained through drawing and repaying the bank facilities.

BUSINESS RISKS

All companies in the Canadian oil and natural gas industry are exposed to a number of business risks, some of which are beyond their control. These risks can be categorized as operational, financial and regulatory.

Operational risks include finding and developing oil and natural gas reserves on an economic basis, reservoir production performance, marketing production, hiring and retaining employees and accessing contract services on a cost effective basis. By employing a team of highly qualified staff, providing a compensation system that rewards above average performance and developing strong long-term relationships with contract service providers, these risks are mitigated. The Company maintains an insurance program consistent with industry practice to protect against destruction of assets, well blowouts, pollution and other business interruptions. We also maintain a geologically diverse, but geographically concentrated prospect inventory, undertake a large drilling program and use proven technology where appropriate to minimize the cost of finding and developing oil and natural gas reserves.

Financial risks include commodity prices, interest rates and the Canadian/US exchange rate, all of which are largely beyond Bonavista's control. While the Company has used financial instruments in the past, currently there are none in place with respect to these risks. Bonavista's approach to management of these risks is to maintain a prudent level of debt, enter into certain fixed price, physical delivery, commodity-based contracts and use its strong financial position to fund exploration and development activities and acquisitions through fluctuations in these variables.

Bonavista is also subject to various regulatory risks, many of which are beyond our control. We take a proactive approach with respect to environmental and safety matters such as maintaining an environmental and safety program whereby major facilities are regularly audited. An operational emergency response plan is in place and is in compliance with current environmental legislation.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements are the responsibility of management in accordance with accounting principles generally accepted in Canada. Financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates which are based on management's informed judgments. Management has established systems of internal controls which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit committee, the majority of whose members are non-management directors. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and have reported to the Board of Directors who has approved the consolidated financial statements.

KPMG LLP are independent auditors appointed by Bonavista's shareholders. The auditors have considered, for the purposes of determining the nature, timing and extent of their audit procedures, the Company's internal controls and have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the financial statements.

Keith A. MacPhail
President and Chief Executive Officer

Ronald J. Poelzer
Vice President and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Bonavista Petroleum Ltd. as at December 31, 1999 and 1998 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 28, 2000

CONSOLIDATED BALANCE SHEETS

December 31,	1999	1998
(000's)		
ASSETS		
Current assets		
Cash and short-term deposits	**$ 55**	$ 21
Accounts receivable	**10,962**	5,127
Prepaid expenses	**817**	410
	11,834	5,558
Oil and natural gas properties and equipment (note 2)	**175,910**	92,142
	$ 187,744	$ 97,700
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 22,610**	$ 7,701
Long-term debt (note 3)	**43,221**	33,835
Site restoration provision	**3,811**	1,990
Deferred income taxes	**10,242**	868
Shareholders' equity		
Share capital (note 4)	**86,206**	48,750
Retained earnings	**21,654**	4,556
	107,860	53,306
	$ 187,744	$ 97,700

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

M Kanovsky

Michael M. Kanovsky, Director

Harry L. Knutson, Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31,	1999	1998
(000's, except per share amounts)		
REVENUES		
Production	$ 72,135	$ 26,857
Royalties, net of Alberta Royalty Tax Credit	(12,797)	(3,675)
	59,338	23,182
EXPENSES		
Operating	9,169	5,145
General and administrative	876	661
Financing charges	2,830	1,731
Depreciation, depletion and site restoration	19,595	9,958
	32,470	17,495
Income before income and other taxes	26,868	5,687
Income and other taxes (note 5)	9,770	1,071
NET INCOME	17,098	4,616
Retained earnings, beginning of year	4,556	(60)
RETAINED EARNINGS, END OF YEAR	$ 21,654	$ 4,556
NET INCOME PER SHARE – BASIC	$ 0.68	$ 0.22
NET INCOME PER SHARE – FULLY DILUTED	$ 0.62	$ 0.20

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	1999	1998
(000's, except per share amounts)		
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net income	**$ 17,098**	$ 4,616
Items not requiring cash from operations		
Depreciation, depletion and site restoration	**19,595**	9,958
Deferred income taxes	**9,374**	868
Cash flow from operations	**46,067**	15,442
Decrease in non-cash working capital items	**8,667**	975
	54,734	16,417
FINANCING ACTIVITIES		
Issuance of share capital, net of share issue costs	**41,156**	8,793
Increase in bank loan (note 3)	**9,386**	30,845
	50,542	39,638
INVESTING ACTIVITIES		
Oil and natural gas properties and equipment additions	**(105,266)**	(56,010)
Proceeds on sale of oil and natural gas properties	**150**	15
Site restoration expenditures	**(126)**	(60)
	(105,242)	(56,055)
Decrease in cash and short-term deposits	**34**	–
Cash and short-term deposits beginning of year	**21**	21
CASH AND SHORT-TERM DEPOSITS, END OF YEAR	**$ 55**	$ 21
CASH FLOW FROM OPERATIONS PER SHARE – BASIC	**$ 1.83**	$ 0.72
CASH FLOW FROM OPERATIONS PER SHARE – FULLY DILUTED	**$ 1.62**	$ 0.61

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1999 and 1998

1. SIGNIFICANT ACCOUNTING POLICIES

As a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Principles of consolidation

The consolidated financial statements include the accounts of Bonavista Petroleum Ltd. (the "Company") and its wholly owned subsidiaries, Bonavista Energy Ltd. and Bonavista Resources Ltd. By articles of amendment dated January 1, 1999, Bonavista Resources Ltd. was amalgamated with the Company and on January 1, 2000, Bonavista Energy Ltd. was amalgamated with the Company.

(b) Oil and natural gas operations

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized in cost centres on a country-by-country basis. Such costs include land acquisitions, drilling, well equipment and geological and geophysical activities. General and administrative costs are not capitalized. Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20 per cent or more.

Costs capitalized in the cost centres, including well equipment, together with estimated future capital costs associated with proven reserves, are depreciated and depleted using the unit-of-production method which is based on gross production and estimated proven oil and natural gas reserves as determined by independent engineers. The cost of significant unproven properties is excluded from the depreciation and depletion base. For purposes of the depreciation and depletion calculations, oil and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content. Facilities are depreciated using the declining balance method over their useful lives, which range from 12 to 15 years. Office equipment is recorded at cost and is depreciated over the useful life of the assets on the declining balance basis at 20 per cent.

The provision for future site restoration costs is calculated using the unit-of-production method and is included within the provision for depreciation, depletion and site restoration. Costs are estimated each year by management based upon current regulations, costs, technology and industry standards. Actual costs as incurred are charged against the accumulated liability.

In applying the full cost method, the Company calculates a ceiling test which restricts the capitalized costs less accumulated depreciation and depletion from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and natural gas reserves, based on year-end prices and costs, plus the cost, net of impairments, of unproved properties and after deducting estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

(c) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Oil and natural gas properties and share capital are reduced by the estimated benefit to the renounced tax deductions when the expenditures are incurred.

(d) Financial instruments

From time to time, the Company may use swap agreements or other financial instruments to hedge its exposure to fluctuations in oil and natural gas prices. Gains and losses arising from these swap arrangements are reported as adjustments to the related revenue account over the term of the financial instrument. Financial instruments are not used for speculative purposes. The carrying values of the Company's monetary assets and liabilities approximate their fair values.

(e) Deferred income taxes

The Company follows the deferral method of accounting for income taxes.

2. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

December 31, 1999	Cost	Accumulated depreciation and depletion	Net book value
(000's)			
Oil and natural gas properties	**$ 167,648**	**$ 29,488**	**$ 138,160**
Facilities and well equipment	**46,196**	**8,985**	**37,211**
Office equipment	**900**	**361**	**539**
	$ 214,744	**$ 38,834**	**$ 175,910**
December 31, 1998			
(000's)			
Oil and natural gas properties	$ 81,183	$ 15,079	$ 66,104
Facilities and well equipment	31,592	5,881	25,711
Office equipment	552	225	327
	$ 113,327	$ 21,185	$ 92,142

Unproved property costs of $21,856,000 as at December 31, 1999 (1998 – $14,283,000) were excluded from the depreciation and depletion calculation. During the year ended December 31, 1999, the Company recorded a provision of $1,947,000 (1998 – $981,000) for site restoration in the consolidated financial statements.

3. LONG-TERM DEBT

The Company has a $90 million revolving demand loan facility which provides that borrowings may be made by way of prime loans, bankers' acceptances and/or US$ LIBOR advances which bear interest at the bank's prime rate and/or at money market rates plus a stamping fee. The bank loan facility is secured by a first floating charge debenture, general assignment of book debts and the Company's oil and natural gas properties and equipment and is subject to an annual review by the lender. Although the revolving line of credit is payable on demand, the lender has advised that it does not intend to demand repayment of the outstanding principal balance on the credit facility prior to December 31, 2000. During the year ended December 31, 1999 the Company paid interest of $2,728,000 (1998 – $1,698,000).

4. SHARE CAPITAL

(a) Authorized

Unlimited number of voting Common Shares and Preferred Shares.

(b) Common shares issued

	Number	Amount
(000's)		
Outstanding as at December 31, 1997 (note 4 d(i))	21,113	$ 39,957
Issued for cash:		
Private placement of flow-through shares	928	8,257
Exercise of stock options	418	655
Costs associated with shares issued	–	(119)
Outstanding as at December 31, 1998	22,459	48,750
Issued for cash:		
Private placement of shares	**2,500**	**35,000**
Private placement of flow-through common shares	**58**	**1,035**
Exercise of Special A Warrants and Purchase Obligations	**3,150**	**6,300**
Exercise of stock options	**90**	**296**
Estimated tax cost of renounced expenditures	**–**	**(3,700)**
Costs associated with shares issued	**–**	**(1,475)**
OUTSTANDING AS AT DECEMBER 31, 1999	**28,257**	**$ 86,206**

(c) Weighted average shares outstanding

During the year ended December 31, 1999, there were 25,142,340 (1998 – 21,434,016) weighted average shares outstanding. On a fully diluted basis, there were 28,965,026 (1998 – 26,171,758) weighted average shares outstanding.

(d) Special warrants

(i) Special warrants and rights

Included in the amounts outstanding as at December 31, 1997 are 3,988,333 special warrants and rights that were converted into common shares at no additional cost.

(ii) Special A Warrants and Purchase Obligations

The Company issued Special A Warrants and Purchase Obligation Agreements pursuant to which up to 3,150,000 Common Shares may be issued through a series of transactions at an average price of $2.00 per share. All Special A Warrants were exercised during 1999.

(e) Options

The Company has established a stock option plan whereby officers, directors, and employees may be granted options to purchase Common Shares. The options are granted for a term of five years and vest at the rate of either 25 percent or $33^{1}/_{3}$ percent per year.

A summary of stock option transactions for the years ended December 31, 1999 and 1998 is as follows:

	1999		1998	
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
January 1,	**2,065,166**	**$ 3.77**	1,585,165	$ 1.63
Granted	**417,000**	**13.01**	950,000	6.23
Exercised	**(90,129)**	**3.29**	(411,999)	1.55
Cancelled	**(120,635)**	**2.88**	(58,000)	1.38
DECEMBER 31,	**2,271,402**	**$ 5.53**	2,065,166	$ 3.77

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 1999:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at year-end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at year-end	Weighted average exercise price
$1.35 to $4.00	1,002,734	3	$ 1.67	574,401	$ 1.64
$5.05 to $9.00	951,668	4	6.69	143,333	5.74
$14.00 to $14.40	317,000	5	14.27	–	–
$1.35 to $14.40	2,271,402	4	$ 5.53	717,734	$ 2.46

5. INCOME TAXES

The provision for income tax differs from the result which would have been obtained by applying the combined Federal and Provincial income tax rate to the income before taxes. This difference results from the following items:

Years ended December 31,	1999	1998
Effective tax rate	44.3%	44.6%
(000's)		
Expected tax expense:	$ 11,903	$ 2,536
Non-deductible Crown payments, net of the Alberta Royalty Tax Credit	4,589	1,394
Resource Allowance	(6,302)	(2,070)
Benefit of prior year losses	–	(992)
Depreciation and depletion of income tax balances without book value	(822)	–
Other	6	–
Capital taxes	396	203
PROVISION FOR INCOME TAXES	$ 9,770	$ 1,071
The provision for income taxes consists of:		
Current	$ 396	$ 203
Deferred	9,374	868
PROVISION FOR INCOME TAXES	$ 9,770	$ 1,071

THE BONAVISTA TEAM

Carolanne Baker

Connie Black

Lamont Brooks

Allan Carswell

Steve Charbonneau

Georgina Crump

Steve Dalman

Margaret Ann Eckhardt

Tammy Freeman

Dan Fry

Dwight Gaab

Tim Galbreath

Jerri Graf

Myrna Griffin

Glenn Hamilton

Stephen Hughes

Bonnie Jones

Ryan Kroeger

Keith MacPhail

Chantal McCubbin

Darren Manum

Kristi Meckelberg

Ron Poelzer

Kathy Reinhart

Bob Schonknecht

Jason Skehar

Hank Spence

Doug Stewart

Bill Styan

Heather Tease

Johannes Thiessen

Chris Turpin

Alex Verge

Shelly Wilson

CORPORATE INFORMATION

DIRECTORS

Keith A. MacPhail,
Chairman, President and C.E.O.

Michael M. Kanovsky,
Sky Energy Corporation

Harry L. Knutson,
Nova Bancorp Group of Companies

Ronald J. Poelzer,
Vice President and C.F.O.

HEAD OFFICE

1000, 321 - 6th Avenue SW
Calgary, Alberta T2P 3H3
Telephone: (403) 213-4300
Facsimile: (403) 262-5184
E-Mail: inv_rel@bonavistapete.com

AUDITORS

KPMG LLP
Chartered Accountants
Calgary, Alberta

BANKER

Canadian Imperial Bank of Commerce
Calgary, Alberta

ENGINEERING CONSULTANTS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol "BNP"

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
bbls	Barrels
bbls/day	Barrels per day
mbbls	Thousand barrels
boe	Barrel(s) of oil equivalent
boe/day	Barrel(s) of oil equivalent per day
mcf	Thousand cubic feet
mcf/day	Thousand cubic feet per day
mmcf	Million cubic feet
mmcf/day	Million cubic feet per day
bcf	Billion cubic feet
WTI	West Texas Intermediate

Units of natural gas are converted into a barrel of oil equivalent at a ratio of ten thousand cubic feet of natural gas to one barrel of oil.

FOR FURTHER INFORMATION CONTACT:

Keith A. MacPhail
President and C.E.O.
(403) 213-4315

or

Ronald J. Poelzer
Vice President and C.F.O.
(403) 213-4308

Designed and produced by Merlin Creative Group Inc. Printed in Canada.

BONAVISTA
PETROLEUM LTD

1000, 321 - 6th Avenue SW
Calgary, Alberta T2P 3H3
Telephone: (403) 213-4300
Facsimile: (403) 262-5184
E-Mail: inv_rel@bonavistapete.com